

Economic Briefing

US inflation weaker than expected – again

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US consumer prices in May rose more slowly than expected for the fourth month in a row. The month-on-month rate of inflation was only 0.1% overall and, excluding energy and food also only 0.1%. Some goods became significantly more expensive due to tariffs. Overall, however, the price pressure remained low. We still expect a stronger tariff-related price surge in the coming months. However, the chances that the inflation shock will not get out of hand have improved. This supports our forecast that the Federal Reserve is likely to cut interest rates in September.

The data ...

US consumer prices rose by only 0.1% in May as compared to the previous month. The year-on-year rate rose from 2.3% to 2.4%. The more important core rate, which excludes volatile energy and food prices, was also 0.1% in month-on-month terms. The year-on-year core rate remained at 2.8%. Most economists had expected month-on-month rates of 0.2% (headline rate) and 0.3% (core rate).

... and the background

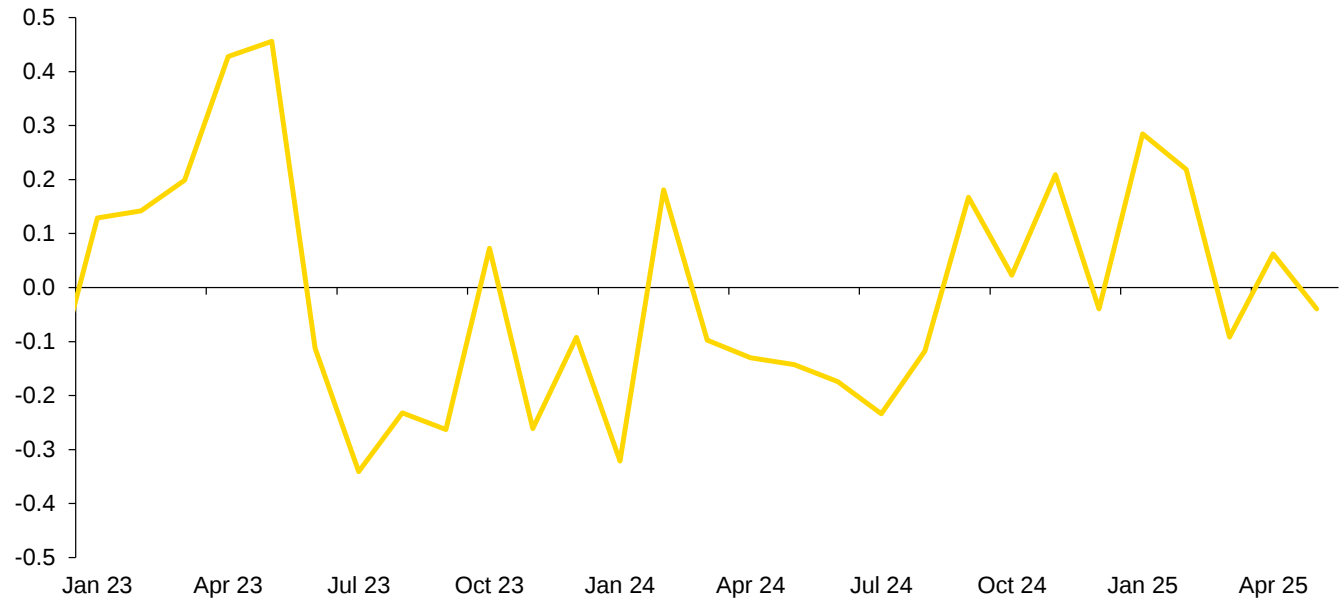
How are tariffs affecting US consumer prices? In May, some goods frequently imported from China saw above-average price increases. This applies, for example, to household appliances (+0.8%) and toys (+1.3%). In contrast, cars, which are heavily affected by tariffs, actually became cheaper (new vehicles -0.3%, used cars -0.5%). Overall, the price level for goods excluding energy and food remained virtually unchanged in May (Chart 1). These prices had already risen only marginally in April.

In addition, only weak price increases are observed for services. This may reflect the fact that wage growth has slowed and companies are seeing some relief in costs. Prices are also falling for some services that have been less in demand recently, such as flights (-2.7%) and hotel accommodation (-0.1%). In addition, rents are rising more slowly.

In the coming months, tariff-related price increases should have a stronger impact, partly because companies are still benefiting in some cases from inventories built up before the tariffs were introduced. However, the relatively low inflation figures seen in recent months reduce the risk of price increases getting out of hand. In May, we already lowered our inflation forecast for 2025 from 3.5% to 3.0%.

**Chart 1 - Overall, very little impact from tariffs visible**

Consumer prices goods ex energy and food, month-on-month change in %



Source: BLS, S&P Global, Commerzbank Research

Rate cut in September likely

Although the higher tariffs are having some impact in certain areas, their effect on prices overall is weaker than previously feared, at least for now. This makes a Fed interest rate cut more likely in the foreseeable future. However, a cut as early as next week is virtually out of the question. The Fed's communication was too clearly geared towards maintaining the status quo. The Fed will also want to wait and see whether the next one or two inflation reports show stronger effects. In addition, the labor market has only weakened slightly so far. We therefore also consider a cut at the July FOMC meeting as unlikely. We are sticking to our forecast that the Fed will probably deliver a rate cut by 25 bps in September. The markets already had some doubts about this; it was considered possible until recently that the central bank would wait even longer.



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